ORIGINAL

Commissioner	Yes	No	Not Participating
Huston	√		
Freeman	√		
Krevda	√		
Ober	√		
Ziegner	√		

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SYCAMORE GAS COMPANY FOR APPROVAL OF CHANGES IN ITS GAS RATES THROUGH A GAS COST ADJUSTMENT IN ACCORDANCE WITH IND. CODE § 8-1-2-42(g) FOR THE PERIOD FEBRUARY THROUGH APRIL 2022.	)	**CAUSE NO. 37368 GCA 153** **APPROVED: JAN 26 2022**

ORDER OF THE COMMISSION

Presiding Officer:
Loraine L. Seyfried, Chief Administrative Law Judge

On November 30, 2021, in accordance with Ind. Code § 8-1-2-42, Sycamore Gas Company, Inc. ("Petitioner") filed its Verified Petition for Approval of Changes in Gas Cost Adjustment ("GCA") Factors, with attached schedules to be applicable during the months of February through April 2022. On that same day, Petitioner filed the direct testimony of its two witnesses, its President, John T. Stenger, and its Controller, David C. Ream, supporting the proposed GCA factors. On December 23, 2021, Petitioner filed a Notice of Corrections that supplemented data to a schedule attached to the testimony of Mr. Stenger.

On December 30, 2021, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony and exhibits of Mark H. Grosskopf, Senior Utility Analyst in the OUCC's Natural Gas Division.

The Indiana Utility Regulatory Commission ("Commission") set this matter for an evidentiary hearing to be held at 10:30 a.m. on January 18, 2022, in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Counsel for Petitioner and the OUCC participated in the evidentiary hearing, and the testimony and exhibits of Petitioner and the OUCC were admitted into the record without objection.

Based upon the applicable law and the evidence presented, the Commission finds:

1. **Statutory Notice and Commission Jurisdiction.** Notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner is a public utility as defined in Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42(g), the Commission has jurisdiction over changes to Petitioner's rates and charges related to adjustments in gas costs. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. **Petitioner's Characteristics.** Petitioner is a corporation organized and existing under the laws of the State of Indiana. Petitioner's principal office is located at 370 Industrial Drive, Suite 200, Lawrenceburg, Indiana. Petitioner renders natural gas utility service to the public

in Dearborn, Franklin, and Ohio counties in Indiana and owns, operates, manages, and controls plant and equipment used for the distribution and furnishing of such service.

3. <u>Source of Natural Gas</u>. Ind. Code § 8-1-2-42(g)(3)(A) requires Petitioner to make every reasonable effort to acquire long-term gas supplies to provide gas to its retail customers at the lowest gas cost reasonably possible.

Petitioner's testimony and exhibits show that Petitioner has a contract with a marketer for firm gas supply on a non-interruptible basis. Petitioner has the option to purchase a portion of its portfolio on "first of the month" and/or "daily" indices. Mr. Stenger testified that Petitioner can also purchase a portion of its gas through fixed price contracts. Petitioner has hedged approximately 48% of its total supply requirements for the upcoming GCA quarter and continues to review different strategies for future hedging of its gas supply requirements.

The Commission has indicated that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. This includes a program that considers market conditions and the price of natural gas on both current and forward-looking bases. Based on the evidence offered, we find that Petitioner has demonstrated that it has and continues to follow a policy of securing natural gas supply at the lowest gas cost reasonably possible to meet anticipated customer requirements. Therefore, we find that the requirement of this statutory provision has been fulfilled.

4. <u>Purchased Gas Cost Rates</u>. Ind. Code § 8-1-2-42(g)(3)(B) requires that Petitioner's pipeline suppliers have requested or filed pursuant to the jurisdiction and procedures of a duly constituted regulatory authority the costs proposed to be included in the GCA factor. The evidence of record indicates that the proposed gas costs include transport rates that have been filed by Petitioner's pipeline suppliers in accordance with Federal Energy Regulatory Commission procedures. We have reviewed the cost of gas included in the proposed gas cost adjustment charge and find the cost to be reasonable. Therefore, we find that the requirement of this statutory provision has been fulfilled.

5. <u>Return Earned</u>. Ind. Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a GCA factor that results in Petitioner earning a return in excess of the return authorized by the last Commission Order in which Petitioner's basic rates and charges were approved. Petitioner's current basic rates and charges were approved on March 6, 2019, in Cause No. 45072. After adjusting for the increases authorized in its federal mandate tracker proceedings under Cause No. 45131, Petitioner's authorized net operating income for this GCA is $1,722,059.

Petitioner's evidence indicates that for the 12 months ending September 30, 2021, Petitioner's actual net operating income was $1,868,448. Therefore, based on the evidence of record, we find that Petitioner is earning a return in excess of that authorized.

Because Petitioner's return exceeds the amount authorized, Ind. Code § 8-1-2-42.3 requires the Commission to determine the amount, if any, of the return to be refunded to customers through the variance in this Cause. A refund is only appropriate if the sum of the differentials (both positive and negative) between the determined return and the authorized return during the relevant period, as defined by Ind. Code § 8-1-2-42.3(a), is greater than zero. Based on the evidence of record, we find the sum of the differentials during the relevant period is $(3,712,944), and therefore, it is not appropriate to require a refund in this Cause of any of the amount over-earned.

6. **Estimation of Purchased Gas Costs.** Ind. Code § 8-1-2-42(g)(3)(D) requires that Petitioner's estimate of its prospective average gas costs for each future recovery period be reasonable. The Commission has determined that a comparison of the variance to the incremental cost of gas on Schedule 6 be used to determine if the prior estimates are reasonable when compared to the corresponding actual costs. A 12-month rolling average comparison helps to eliminate the inherent variance related to cycle billing and seasonal fluctuations. The evidence presented indicates Petitioner's 12-month rolling average comparison was 16.72% for the period ending September 30, 2021. This increase was due to elevated gas supply pricing during the winter storm "Uri" in February 2021. Based on the evidence presented, we find that Petitioner's estimating techniques are sound, and Petitioner's prospective average estimate of gas costs is reasonable.

7. **Reconciliations.**

A. **Variances.** Ind. Code § 8-1-2-42(g)(3)(D) also requires that Petitioner reconcile its estimate for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this proceeding establishes that the variance for the reconciliation period of July through September 2021 ("Reconciliation Period") is an under-collection of $14,037 from its customers. This amount should be included, based on estimated sales percentages, in this GCA and the next three GCAs. The amount of the Reconciliation Period variance to be included in this GCA as an increase in the estimated net cost of gas is $4,922.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of $247,700. Combining this amount with the Reconciliation Period variance, results in a total under-collection of $252,622 to be applied in this GCA as an increase in the estimated net cost of gas.

B. **Refunds.** Petitioner has $15,696 in refunds from prior periods applicable to the current recovery period. We find that the amount to be refunded to customers in this GCA is $15,696 as reflected on Schedule 12A.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered is $841,794 for February 2022; $685,332 for March 2022; and, $345,301 for April 2022. Adjusting this total for the variance, refund, and unaccounted for gas amounts yields gas costs to be recovered through the GCA factor of $917,822 for February 2022; $762,029 for March 2022; and, $423,135 for April 2022. After dividing that amount by estimated sales and adjusting for the Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are $5.8905/Dth for February 2022, $6.6239/Dth for March 2022, and $6.9089/Dth for April 2022.

9. **Effects on Residential Customers – (GCA Cost Comparison).** Petitioner requests authority to approve the GCA factor of $5.8905/Dth for February 2022, $6.6239/Dth for March 2022, and $6.9089/Dth for April 2022. The table below shows the gas costs a residential customer will incur under the proposed GCA factors based on 10 Dth of usage. The table also compares the proposed gas costs to what a residential customer paid most recently (November 2021 - $7.4604/Dth) and a year ago (February 2021 - $3.2477/Dth, March 2021 - $3.8880/Dth, and April 2021 - $3.3617/Dth). The table reflects costs approved through the GCA process. It does not include Petitioner's base rates or any applicable rate adjustment mechanisms.

	Proposed Gas Costs (10 Dth)	Current		Year Ago	
		Gas Costs (10 Dth)	Difference from Current	Gas Costs	Difference from a Year Ago
February 2022	$58.90	$74.60	($15.70)	$32.48	$26.42
March 2022	$66.24	$74.60	($8.36)	$38.88	$27.36
April 2022	$69.09	$74.60	($5.51)	$33.62	$35.47

10. Interim Rates. We are unable to determine whether Petitioner will earn an excess return while these GCA factors are in effect. Accordingly, the rates approved in this Order are interim rates subject to refund pending reconciliation in the event an excess return is earned.

11. Monthly Flex Mechanism. The Commission indicated in prior Orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. Petitioner's approved monthly flex mechanism is designed to address the Commission's concerns. Therefore, Petitioner may utilize a monthly flex mechanism to adjust the GCA factor for the subsequent month. The flex mechanism applies to the mix of volumes between spot, fixed, and storage gas purchases as long as the total volumes remain unchanged from the total monthly volume of gas estimated in this GCA proceeding. The flex mechanism also applies to the estimated unit price of spot, fixed, or storage gas purchases. The flex mechanism is to be filed no less than three business days before the beginning of each calendar month during the GCA period. Market purchases in the flex mechanism are to be priced at NYMEX prices on a day no more than ten business days prior to the beginning of said calendar month. Changes in the market price included in the flex mechanism are limited to a maximum adjustment (higher or lower) of $1.00 from the initial market price in this GCA proceeding. Finally, Petitioner shall file all material which supports its decision to flex or not to flex as outlined in our Order in Cause No. 44374.

Mr. Stenger testified that in Cause No. 37368 GCA 152 ("GCA 152"), Petitioner intended to purchase additional fixed price gas for the winter period prior to submitting its flex filing for November. Accordingly, in October 2021, Petitioner switched purchases for 30,000 Dth of gas from the spot market to fixed price. The cost of fixed gas for this purchase was more than $1.00 higher than the fixed priced hedges in GCA 152. Mr. Stenger testified that, at the time, he was unaware the $1.00 cap applied to fixed price purchases. However, the overall impact of the hedging saved customers approximately $24,000 as compared to what gas would have cost had it been purchased on the spot market. In November 2021, Petitioner held discussions with the OUCC and Commission staff. As a result of those discussions, Petitioner included both November and December hedges made in October in its portfolio at full cost. Mr. Stenger testified that if, in the future, Petitioner again decides to make purchases during times of significant market volatility, it will attempt to communicate that intention in the preceding GCA proceeding and provide details about cost if it sees a customer cost savings reason to make fixed price purchases that would exceed the $1.00 cap. OUCC witness Grosskopf testified the OUCC supports hedging gas costs through fixed gas purchases and recommended the Commission approve Sycamore's proposal regarding fixed purchases in its flex filings going forward. Based on the evidence presented, we find that should Petitioner again desire to make purchases during times of significant market volatility that will exceed the $1.00 cap, it must communicate its intention in the relevant GCA proceeding and add details about cost savings reasons to make fixed price purchases. Petitioner also shall continue to file all material which supports its decision to flex or not to flex as outlined in our Order in Cause No. 44374.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Petition of Sycamore Gas Company, Inc. for the gas cost adjustment for natural gas service, as set forth in Paragraph No. 8, is approved, subject to refund in accordance with Paragraph No. 10.

2. Prior to implementing the rates or future flexed factor, Sycamore Gas Company, Inc. shall file the tariff and applicable rate schedules under this Cause for approval by the Commission's Energy Division. Such rates shall be effective on or after the Order date subject to Division review and agreement with the amounts reflected.

3. In accordance with Paragraph No. 11, if Petitioner desires to make purchases during times of significant market volatility that will exceed the $1.00 cap, it shall communicate its intention in the relevant GCA proceeding and add details about cost savings reasons to make fixed price purchases.

4. This Order shall be effective on and after the date of its approval.

HUSTON, FREEMAN, KREVDA, OBER, AND ZIEGNER CONCUR:

APPROVED: JAN 26 2022

I hereby certify that the above is a true and correct copy of the Order as approved.

Dana Kosco Digitally signed by Dana Kosco
Date: 2022.01.26 10:17:25 -05'00'

Dana Kosco
Secretary of the Commission